EVALUATING ORGANISATIONAL USES OF PERFORMANCE APPRAISAL SYSTEM: A CONCEPTUAL ANALYSIS AND FRAMEWORK FOR THE FUTURE

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ABSTRACT: Organizational effectiveness and efficiency may be realised when employees are frequently assessed. While performance appraisal and organisational effectiveness has gained attention among scholars, there are little studies on the specific uses performance appraisals or media through performance appraisal exercises improve corporate effectiveness. In this light, this study examines organisational uses of appraisal systems. To address the research aim, thematic literature review approach is employed to assess the organisational benefits or uses of performance appraisal results. The study finds that employee performance appraisal results are used by organisations as an instrument to enhance employee motivation, improve corporate communication, facilitate employee training and development and boost overall corporate success or effectiveness. The study therefore recommends that organisations must not see employee performance appraisal as just an annual activity but recognise it as a continuous activity and an important resources that can provide enormous benefits to enhance the success of the organisation. By these findings the study contributes significantly to knowledge by developing a model of performance appraisal outcomes. The model shows the mechanisms through which performance appraisal practices positively affect organisations and also for empirical testing particularly in developing countries’ contexts.

KEYWORDS: Employee Appraisal, Performance Appraisal System, Organisational effectiveness, Motivation, Training and development, Internal communication

INTRODUCTION

The issue of employee performance appraisals in organisations is one of the essential and most popular human resource management and development practices globally (Boswell & Boudreau, 2002; Lillian, Mathooko & Sitati, 2011; Baruch, 1996). Most organisations institute performance appraisal systems because they believe it is a vital source of human capital development and a system which can provide avenues for making essential decisions such as
employee training and development, promotion (Rao, 2009), demotions, layoffs, just to cite few. This is consistent with Lillian et al. (2011)’s assertion that information or results that are obtained from performance appraisal exercises can be used in respect of employee recruitment and selection, staff training and development. They further add that it is a vital tool that may be utilised by employers to motivate and retain the needed quality human resources that a particular organisation may require to facilitate the realization of its goals.

Usually, performance appraisal system is designed by the human resources (HR department) in most organisations, whether profit making or non-profit making, small or large. It requires that supervisors or line managers appraise their employees’ work performance regularly so that actions needed to improve their performance can be implemented. Lawaj (2014, p.88) describes performance appraisal as:

A methodical evaluation of staff performance compared to organisational performance standards. It includes the appraising and development of the performance of employees. Work standards are included in the process in order to assess the real work performance of employees compared to those standards and provide them with feedback, putting in mind their motivation to perform effectively.

While the practice of performance appraisal systems is popular in this millennium, it is important to note that the idea of performance appraisal is not new. Indeed, the issue of performance appraisal has gained the attention of researchers for more than seven decades (Landy & Farr, 1980). As a result, several performance appraisal themes were examined by many scholars. For example, before the 1980s, most empirical and theoretical studies focus on developing the psychometric characteristics of the appraisal method in order to decrease the bias inbuilt in performance assessments (Feldman, 1981). Thus, during the 1960s and 1970s, studies concentrate on rating scale format. This led to the development of some contemporary formats. Some of these modern formats include the ‘Behaviour Observation Scale (BOS), the Behaviourally Anchored Rating Scale (BARS)’ and the Mixed Standard Scale. Other related research areas include appraisers training as a means of decreasing appraisal biases (Walsh, 2003). Lately, performance appraisal and organisational effectiveness is also gaining attention among scholars (eg. Arthur, 2015; Boateng, 2011; Lawaj, 2014; Warokka, Gallato & Moorthy, 2012; Iqbal, Ahmad, Haider, Batool & Qurat-ul-ain, 2013; Boachie-Mensah & Seidu, 2012; Khan, Chandio & Farooqi, 2014). Most of these studies show that performance appraisal contributes positively to corporate success or effectiveness. However, there are little studies on the specific uses of performance appraisal systems and the actual mechanisms or through which performance appraisals contribute to organisational success. Thus, the specific uses of performance appraisal systems in organisations need further exploration in order to enhance our understanding about the mechanisms through which performance appraisals add values to organisations as a whole. In this light, this study examines organisational uses of appraisal systems. It also develops a conceptual model which shows the various paths or mechanisms through which performance appraisal exercises can lead to overall corporate effectiveness.

To address these aims of the research, the study employs thematic literature review approach to assess the organisational benefits or uses of performance appraisal results. The rest of the paper is organised as follows: Theoretical foundation, conceptualisation of performance appraisal system, performance appraisal uses in organisations, implications, conclusion, and future research.
THEORETICAL UNDERPINNING

There are various theories that can be utilised in performance appraisal studies. However, goal-setting theory is particularly relevant in explaining performance appraisal and its uses in organisations. A goal is what a person tries to achieve. It is the objectives of people’s action. The concept can be compared to the idea of purpose and intent in terms of what they mean (Locke, 1969). Other concepts that are related to ‘goal’ with regard to their meaning consist of:

- Performance standard (a measuring rod for evaluating performance), quota (a minimum amount of work or production), work norm (a standard of acceptable behavior defined by a work group), task (a piece of work to be accomplished), objective (the ultimate aim of an action or series of actions), deadline (a time limit for completing a task), and budget (a spending goal or limit) (Locke, Shaw, Saari & Latham, 1981, p.126).

Goal-setting theory is developed in the field of industrial and organizational psychology over a period of two and half decades using about 400 laboratory and field studies (Locke & Latham, 2002). It has been shown that “specific, high (hard) goals results in a higher level of job or work performance compared to easy goals or vague, abstract goals such as the exhortation to ‘do one’s best’” (Locke & Latham, 2002, p.265). Therefore, as far as an individual is committed to the goal, has the necessary capability to achieve it, and does not have contradictory goals, there will be a positive association between difficult goals and work performance (Locke & Latham, 2002). This is because goals refer to “future valued outcomes, the setting of goals is first and foremost a discrepancy creating process. It implies discontent with one’s present condition and the desire to attain an object or outcome” (Locke & Latham, 2002, p.265).

The goal setting theory asserts that goals can influence an individual’s outputs when the goals are difficult and specific; has direction and attention, effort and persistence, as well as enhances achievement and improvement of corporate strategies (Locke & Latham, 2002). When a goal is challenging and unambiguous, it may result in improved corporate effectiveness and greater success in contrast to vague and unchallenging goals. In this regard, the workforce of any organisation should be encouraged to be aware of their goals as well as assisted to comprehend how they can utilise their performance goals to improve their efficiency and effectiveness (Buchner, 2007). This underscores the importance of performance appraisal system. Through performance appraisal, goals are set for workers to achieve. When these specific goals are achieved, it will affect performance of the employee, and consequently the overall effectiveness of the organisation. However, some scholars have questioned the usefulness of performance appraisal or management systems in this regard. They maintain that it is often not clear as to whether goals set for workers are indeed achievable (Buchner, 2007). This therefore, suggests that organisations that use performance appraisals to set specific achievable targets or goals for their workers are more likely to be effective organisations compared to those that do not employ performance appraisals in setting specific goals that are also within their achievement. Similarly, Baker, Jensen and Murphy (1988, p.59) maintains that “performance appraisal can be the most powerful tool a manager has to enhance a subordinate’s productivity. Conversely, proper goals [or performance target in an effective] performance appraisal system can stir strong feeling and conflict in the work place.”
CONCEPTUALIZING PERFORMANCE APPRAISAL SYSTEM

The concept of performance appraisal or performance appraisal system has been variously defined by several scholars or researchers (eg. Adejoke & Bayat, 2013; Aguinis, 2007; Agyenim-Boateng, 2006; Grubb, 2007; Jafari, Bourouni & Amiri, 2009). Performance appraisal system generally, involves measures that are taken to assess, monitor and enhance the effectiveness of employees as well as enhancing the general success of the organization (Agyenim-Boateng, 2006). It is a process of assessing individual employee performance and how it can be improved to contribute to overall corporate performance (Grubb, 2007). The focus of performance appraisal system is to identify weaknesses and strengths of employees so that actions can be taken to improve and develop employees’ skills and competencies for better results (Aguinis, 2007). Earlier, Atiomo (2000) observes that performance appraisal system offers a medium through which various institutions can ascertain their employees’ expected performance output as well as determine areas for improvement in order to make good use of their human capital. Recently, Begum, Sarika and Sumalatha (2015, p.75) posit that performance appraisal system is:

...a structured formal interaction between a subordinate and supervisor, that usually takes the form of a periodic interview (annual or semi-annual), in which the work performance of the subordinate is examined and discussed, with a view to identifying weaknesses and strengths as well as opportunities for improvement and skills development.

Similarly, Jafari et al. (2009) maintain that performance appraisal is part of the overall management activity and is considered as a process of making judgements about an employee’s performance as a basis for effective and objective personnel decisions. Frequently, performance appraisal system includes activities which evaluate workers performance by making use of judgments and opinions of subordinates, peers, supervisors, other managers, customers, other stakeholders and even workers themselves (Jackson & Schuler 2003). For this reason, it is important that all organisations whether profit-making or non-profit making must communicate in clear terms what specific tasks employees should do, since this may make some valuable contributions in making performance appraisal systems effective and efficient (Atiomo, 2000). In this study, performance appraisal is described as the process of setting performance targets for employees, monitoring the achievement of these targets by assessing employees’ weaknesses and strengths with the aim of determining actions that should be taken to train and develop their performance capabilities, and subsequently meet their performance expectation and to also motivate or reward their efforts.

DISCUSSING ORGANISATIONAL USES OF PERFORMANCE APPRAISAL SYSTEMS

Performance appraisal is often employed by employers or organisations when they anticipate obtaining some benefits from its usage (Brown & Heywood, 2005). In their views, the employers will have to decide on not only if it is important for them to adopt a formal system of performance appraisal system, but also how it should be practiced so that the organisation can make gains from its implementation. In this regard, Varkky, Koshy and Oburoi (2008) argue that effective performance appraisal system helps management to determine deficiencies and provides motivation to their employees. It provides an essential instrument for the assessment of workers’ output, establishment of performance standards, provision of
constructive comments to the workers, and also helping them to comprehend and be aware of their expected performance outcomes in respect of a certain task. Prior to this, Atiomo (2000) posit that while performance appraisal or performance appraisal system is commonly believed to be related to employee compensation, it may in fact be used to achieve several goals. These goals may include; identifying training needs, enhancing current performance of workers, improving employees’ abilities and talents, enhancing organisational or internal communication, stimulating employee morale or motivation, among other uses. Similarly, Moats-Kennedy (1999) also maintains that when performance appraisal system is effective and appropriately implemented or practiced, it may (1) show workers how to enhance their effectiveness, (2) set reasonable and challenging targets for the workers, and (3) assist superiors or management to evaluate the performance of their workforce and also make decisions in relation to employee hiring, promotions, demotions, training, compensation, job design, transfers, terminations, among others. Additionally, performance appraisal can be utilised to perform an administrative role. This can be done by promoting or encouraging methodical ways for defining rises in pay and promotion, benefiting from other incentives. It may also be employed to delegate authority and duties to employees who are most capable of achieving desired results. Similarly, Rasch (2004) posits that performance appraisal system can also enhance employees’ wellbeing and work climate by improving shared understanding between superiors and their subordinates.

Clearly, it is evident from the above that various scholars and researchers have explained the uses or importance of employee performance appraisal results in relation to employee reward and motivation, corporate communication, employee training and development, and general organisational success. Based on this, the researchers develop a framework or conceptual model which is named as a Model of Performance Appraisal Outcomes (MPAO) (see Figure 4.1) to explore and also explain these major uses or outcomes of performance appraisal systems. Using the model, it is argued in this research that the issues of employee motivation, internal communication, and training and talent development are the main uses of performance appraisal systems. These uses provide the mechanisms through which performance appraisal can make tangible and intangible contributions for the advancement of the overall corporate goal or success. The relationships as depicted on Figure 4.1 are explored or discussed in detail in the following:
Figure 4.1 A Model of Performance Appraisal Outcomes

Source: Authors’ Own Model (2016)

Performance Appraisal System as an Instrument for Internal Communication

A performance appraisal system in any organisation contributes to enhancing overall communication effectiveness within that entity. According to Levy and Williams (2004) and Lee and Bruvold (2003), performance appraisal objectives that aim at communicating the super-ordinate goals, has the ability to improve workers’ insights of how they are being valued individually, team wise, as well as the social exchange argument. That is, one major importance of performance appraisal system is that it provides organisations with feedback opportunities. These feedbacks, exchanges or communications can signal to workers that they are being valued by their managers and the company as a whole (Patterson, Warr & West, 2004; Whitman, Van Rooy & Viswesvaran, 2010). In the views of George and Cole (1992), performance appraisal system enables managers “to discuss performance and plan for the future” (p.389). Grote (2002) also observes that performance appraisal activities provide management or supervisors and their subordinates with important avenues to deliberate on their work activities. These avenues are often used to discuss how employees are making progress and to determine the kind of actions that can be taken to aid them to overcome their weaknesses as well as build on their strengths to enable them to excel on their jobs. Equally, Wanna, O'Faircheallaigh and Weller (1992) posit that the aim of employee performance appraisal is “to improve planning and service delivery at the general level, but also to provide feedback to individual officers” (p.162). This makes them feel more as part of the company or the institution (Patterson et al., 2004; Whitman et al., 2010).

In a typical performance appraisal system, communication is utilised at various stages. For example, communication needed or employed in setting performance goals for the workers. It is also used to provide continuous feedback to employees in relation to the set goals in otherwise, their expected performance outcomes. These constant feedbacks from managers
assist workers to comprehend and be well-informed about where they stand with regards to their expected performance target at any point in time (Ilgen et al., 1979). More so, when the performance evaluation cycle is over, the superior provide final feedback to the employees and in most instances to some higher authority in the form of a “numerical or graded assessment” (Brown & Benson, 2003). It is important to point out that at this final stage, workers also want to get final performance feedback or results as they will like management to use their concluding performance appraisal results in making decisions that directly affect their welfare and career advancement such as increment in compensation, promotions and others. Workers are often excited when their final performance appraisal results or feedback indicate that they are making significant contributions towards the achievement of the goals of the organisation (Taylor, Fisher, & Ilgen, 1984).

Additionally, the entire process of setting the expected performance outcomes or goals help employees to become aware of their performance targets which their institutions or managers expect of them (Brown & Benson, 2003). This as a result enhances internal communication between management and employees. In line with this, Rizzo, House, and Lirtzman (1970, p.152) maintain that, “if an employee does not know what he has the authority to decide, what he is expected to accomplish, and how he will be judged, he will hesitate to make decisions and will have to rely on a trial and error approach in meeting the expectations of his superior”.

This process of making employees aware of their performance expectations by involving them in setting performance goals, supervisors providing continuous and final feedbacks to the employee clearly highlight the fact that managers use performance appraisal to enhance internal communication and also foster positive relationship or exchanges between subordinates and their supervisors in organisation. This undeniably, will contribute significantly in achieving the overall goal of the organisation.

Performance Appraisal System Enhances Employee Motivation/Reward

Aside its contributions to enhancing internal communication and positive subordinate-supervisor relationship, performance appraisal system is a vital instrument that can be used by various organisations to reward their workers in the form of bonuses, promotions, and pay rises. For example, Coens and Jenkins (2002) maintain that performance appraisal system is important for companies or institutions as they employ it to assess, rate and also to demonstrate employee’s work attitude or qualities for a specific time period. Performance appraisal system can be used to establish reward systems that highlight the joint contributions of superiors and their subordinates in achieving the collective institutional objectives (Lillian et al., 2011). Consequently, Essays (2013, para. 28-29) posit that in several institutions:

- performance appraisal results are used either directly or indirectly to help determine reward outcomes. That is, appraisal results can [be used] to identify best performing employees who should get the majority of available merit pay increases, bonuses, and promotions. By the same token, appraisal results are used to identify the poorer performers who may require some form of counseling, or in extreme cases, demotion, dismissal or decreases in pay.

It is therefore evident from the above, when performance appraisal systems are practiced appropriately, it can make valuable contributions in respect of employee motivation or morale.
Performance Appraisal System and Employee and Training and Development

Performance appraisal can also be used as an instrument to train existing workers as well as develop talents within the organisation. According to some scholars (e.g. Boswell & Boudreau, 2000; Ostroff, 1993), the training and developmental uses of performance appraisal results include the identification of individual training requirements, providing feedback on individual employees or teams effectiveness. It also involves the determination of employee transfers and job allocations. It is further used to identify strengths and weaknesses of individual employees, their units or departments. Likewise, in the opinions of Baruch (1996), performance appraisal systems are used for two main purposes: First, results from employees’ assessment can be used to make decisions regarding their promotions, training needs, increases in remuneration, among others. Secondly, performance appraisal results are used to develop (Farh, Cannella & Bedeian, 1991). Similarly, Cleveland, Murphy and Williams (1989) posit that performance appraisal results are used to document employees’ strong points and flaws in their performance capacities. From the above, it is obvious that organisations can use their performance appraisal results to identify employee’s weakness and strengths and then develop programmes to train and develop their employees. The new skills and capability employees acquired as a result will increase their ability to generate new ideas and improve the quantity and quality of their output or service.

Performance Appraisal System and Organisational Success

Performance appraisal system and its processes of assessing workers are also of great importance to the overall success of the organisation. This is because employee involvement in performance appraisal, constant feedback from supervisors, and clarity of goals can make significant positive contributions to the successful achievement of the overall corporate goals. Performance appraisal system when used properly in organisations will help in recognizing star performers for recognition and poor performers for encouragement. Ilgen and Feldman (1983) therefore argue that companies or state institutions may not be able to excel if they fail to institute measures or mechanisms which can be utised to discriminate between industrious employees and indolent workers. Proper differentiation between good and poor performers can promote organisational effectiveness. Similarly, Vanci-Osam and Askit, (2000), and Lam (2001) posit that a system of appraisal that is efficient and effective may generate significant gains to both the individual worker and the institution as a whole. According to them, when superior provide consistent feedback about their performance, it will give them an insight about expectation and actual performance. This in turn will improve the working relationship between superiors and their subordinates and as well as generation of new and innovative ideas. Consequently, Poon (2004) argues that performance appraisal systems can be adopted as a vital instrument of management decision making. This is because its results may provide correct and timely data and information about employees’ progress and performance excellence. This is also consistent with Saunders (2000)’s assertion that performance appraisal system improves workers’ effectiveness.

This implies that when performance appraisal systems are effective, organisations can obtain a lot of organisational benefits; tangible and intangible. Intangible or indirect benefits may include quality product or service and increased organisational innovation from creative, well-trained and motivated workers who have their performance expectations properly communicated to them. These indirect benefits of innovation, quality service, customer satisfactions and loyalty, among others also contribute directly to enhance financial or
economic outcomes. Thus, performance appraisal can aid organisations to achieve better organisational outcomes.

IMPLICATION TO RESEARCH AND PRACTICE

The findings of this study imply that organisations must not see employee performance appraisal as an annual activity but recognise it as a continuous activity as well as an important resource that can provide enormous benefits to enhance the success of the organisation. Organisations therefore should empower supervisors to approach performance appraisal of their subordinates as a second by second, minute by minute, hour by hour or daily activity. Human resource practitioners should also provide raters or supervisor with adequate training in employee performance appraisal. The training should focus on how they can use the appraisal process to enhance supervisor-subordinate relationship, information flow and also train their subordinates.

The finding of this research also has important implications for policy makers. It is expected that this study will serve as a major guide for policy makers in human resource management to develop appropriate performance appraisal systems which incorporates elements of corporate communication, employee training and talent development, as well as employee motivation. Since it will ensure that their organisations are able to use performance appraisal as an instrument to improve their internal communication, employee motivation and employee development leading to overall corporate success.

Furthermore, the study contributes significantly to knowledge by developing a framework or the Model of Performance Appraisal Outcomes that highlights the mechanisms through which performance appraisal practices positively affect organisations. This conceptual framework can be used by other scholars for empirical testing and verification in different contexts, especially as the approach adopted in this study is purely theoretical or conceptual in nature.

CONCLUSION

In conclusion, organisations may practice performance appraisal system for various reasons or outcomes. Organisations, public or private; profit or non-profit making, small or large may institute performance appraisal systems to influence employee behaviour via feedback mechanisms. This will in turn enhance internal communication or the relationship between the supervisors and their subordinates. Performance appraisal also serves as a useful tool for developing and sustaining employee motivation or morale, as well as training and developing existing talents. Thus, employee motivation, training and development, and internal communication are some of the major outcomes of performance appraisal. These performance appraisal outcome variables or factors also provide the mechanisms through which performance appraisal systems can make significant contributions to advance the achievement of the overall goals or objectives of an organisation. Therefore, organisations are encouraged to use the findings of this study to evaluate their existing performance appraisal systems and make the necessary amendments to enable them realise the performance appraisal outcomes of enhanced internal communication, positive working relationship between subordinates and supervisors, improved employee motivation or morale, well trained and creative employees, and ultimately, enhanced corporate success.
FUTURE RESEARCH

Future research should examine the model developed or proposed in this study empirically in specific contexts such as Sub-Saharan context, banking sector, telecommunication sector, and educational sector, among others. Such future studies should assess the relationship between performance appraisal practices and its primary outcomes such as internal communication, employee motivation, and employee training and development. In addition, future studies should examine performance appraisal system and its secondary outcomes like financial performance, corporate innovation, quality performance, etc., while accounting for the mediation role of internal communication, employee motivation, and employee training and development. This in our opinion will provide a very interesting context in relation to making contributions to knowledge in the area.

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